

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX CORPORATE FRANCHISE TAX Federal Update

March 13, 2014

Department of Revenue
Analysis of S.F. 2388 (Skoe)

	Yes	No
DOR Administrative Costs/Savings	X	

	Fund Impact			
	<u>F.Y. 2014</u>	<u>F.Y. 2015</u>	<u>F.Y. 2016</u>	<u>F.Y. 2017</u>
			(000's)	
Individual Income Tax	(\$153,270)	(\$172,225)	(\$138,780)	(\$145,205)
Corporate Franchise Tax	<u>(\$4,055)</u>	<u>(\$545)</u>	<u>(\$425)</u>	<u>(\$380)</u>
General Fund Total	(\$157,325)	(\$172,770)	(\$139,205)	(\$145,585)

EXPLANATION OF THE BILL

The bill would update reference to the Internal Revenue Code to include provisions of the American Taxpayer Relief Act of 2012, Public Law 112-240, enacted January 2, 2013. All provisions would be adopted retroactive to tax year 2013. Some provisions affect only tax year 2013. Others are permanent beginning with tax year 2013.

A table is attached which lists the federal update provisions that would be adopted and includes the years affected and the revenue impact of each item.

REVENUE ANALYSIS DETAIL

- The House Income Tax Simulation Model was used for several provisions: the increased standard deduction for married filers; the increased income thresholds for the limitation on itemized deductions and the phaseout of personal exemptions; the changes in the dependent care credit; and, for the working family credit, the higher phaseout range for married-joint returns. The estimates are consistent with the February 2014 state revenue forecast.
- For other provisions, the estimates are based on the estimates for the federal legislation prepared by the staff of the Joint Committee on Taxation, dated January 1, 2013.
- Where applicable, the estimates were divided between the individual income tax and corporate franchise tax. The estimates for each provision were apportioned to Minnesota based on information relevant to that provision. The estimates were adjusted for the difference between federal and state tax rates and federal and state fiscal years.
- For tax year 2013 provisions, the fiscal year estimates assume enactment early in the legislative session. If enactment occurs at the end of the session, some or all of the FY 2014 impact would shift to FY 2015.

Source: Minnesota Department of Revenue
Tax Research Division
www.revenue.state.mn.us/research_stats/Pages/Revenue-Analyses.aspx

S.F. 2388: Federal Update Provisions by Category
(\$000s)

	FY 2014	FY 2015	FY 2016	FY 2017
Education-Related Provisions				
For Education Savings Accounts, Increase Contribution Limit and Other Changes (1/1/13)	(\$100)	(\$100)	(\$100)	(\$100)
Exclusion of Employer-Provided Education Assistance (1/1/13)	(\$4,400)	(\$4,500)	(\$4,600)	(\$4,700)
For the Student Loan Interest Deduction, Increase the Income Phaseout, Other Changes (1/1/13)	(\$5,900)	(\$6,000)	(\$6,100)	(\$6,400)
Exclusion for Awards under the National Health Service Corps Scholarship Program and Similar Programs (1/1/13)	(\$600)	(\$600)	(\$600)	(\$600)
Deduction for Educator Expenses (tax year 2013)	(\$1,100)	\$0	\$0	\$0
Deduction for Qualified Tuition and Related Expenses (tax year 2013)	(\$5,600)	\$0	\$0	\$0
Subtotal: Education-Related Provisions	(\$17,700)	(\$11,200)	(\$11,400)	(\$11,800)
Restricted Deductions for High-Income Taxpayers (1/1/13)				
Increase the Income Thresholds for the Limitation on Itemized Deductions	(\$19,200)	(\$20,600)	(\$22,400)	(\$24,400)
Increase the Income Thresholds for the Phaseout of Personal Exemptions	(\$7,900)	(\$8,600)	(\$9,500)	(\$10,400)
Subtotal: Restricted Deductions for High-Income Taxpayers	(\$27,100)	(\$29,200)	(\$31,900)	(\$34,800)
Marriage Penalty Relief (1/1/13)				
Increased the Standard Deduction for Married Filers	(\$71,600)	(\$111,000)	(\$74,700)	(\$77,600)
For the Working Family Credit, Increase the Phaseout Range for Married-Joint Filers by \$5,000	(\$17,800)	(\$18,000)	(\$18,100)	(\$18,300)
Subtotal: Marriage Penalty Relief	(\$89,400)	(\$129,000)	(\$92,800)	(\$95,900)

	FY 2014	FY 2015	FY 2016	FY 2017
Homeownership Provisions (tax year 2013)				
Exclusion of Discharge of Indebtedness Income on Principal Residence	(\$7,200)	\$0	\$0	\$0
Premiums for Mortgage Insurance Deductible as Qualified Residence Interest	(\$3,900)	\$0	\$0	\$0
Subtotal: Homeownership Provisions	(\$11,100)	\$0	\$0	\$0
Charitable Contribution Provisions (tax year 2013)				
Special Rule for Contributions of Qualified Conservation Property	(\$320)	(\$30)	(\$20)	(\$10)
Tax-Free IRA Distributions, up to \$100,000, to Certain Public Charities for Individuals Age 70 ½ and Older	(\$2,520)	(\$120)	(\$120)	(\$120)
Enhanced Charitable Contribution Deduction for Food Inventory by Other Than C Corporations	(\$700)	\$0	\$0	\$0
Basis Adjustment to S Corporation Stock for Charitable Contributions of Property	(\$380)	(\$30)	(\$30)	(\$30)
Subtotal: Charitable Contribution Provisions	(\$3,920)	(\$180)	(\$170)	(\$160)
Other Provisions Affecting Individuals				
For the Dependent Care Credit, Increase Eligible Expense Limit and Credit Rate (1/1/13)	(\$1,900)	(\$1,900)	(\$1,900)	(\$2,000)
Exclusion for Employer-Provided Adoption Assistance (1/1/13)	(\$400)	(\$400)	(\$400)	(\$400)
Parity for Exclusion of Employer-Provided Mass Transit and Parking Benefits (tax year 2013)	(Negl.)	\$0	\$0	\$0
Subtotal: Other Provisions Affecting Individuals	(\$2,300)	(\$2,300)	(\$2,300)	(\$2,400)

	FY 2014	FY 2015	FY 2016	FY 2017
Business and Investment Provisions (tax year 2013)				
15-Year Straight-Line Depreciation for Qualified Leasehold, Restaurant, and Retail Improvements				
Individual Income Tax	(\$400)	(\$300)	(\$300)	(\$300)
Corporate Franchise Tax	(\$650)	(\$500)	(\$500)	(\$500)
7-Year Recovery Period for Certain Motorsports Racing Track Facilities				
Corporate Franchise Tax	(\$60)	(\$10)	(\$5)	(\$5)
Accelerated Depreciation for Business Property on Indian Reservations				
Individual Income Tax	(\$500)	(\$100)	\$50	\$120
Corporate Franchise Tax	(\$435)	(\$80)	\$45	\$100
Election to Expense Mine Safety Equipment				
Corporate Franchise Tax	(\$20)	Negl.	Negl.	Negl.
Special Expensing Rules for Certain Film and Television Productions				
Individual Income Tax	(\$450)	\$55	\$40	\$35
Corporate Franchise Tax	(\$340)	\$45	\$35	\$25
Treatment of Certain Payments to Controlling Exempt Organizations for the Unrelated Business Income Tax				
Corporate Franchise Tax	(\$150)	\$0	\$0	\$0
Treatment of Certain Dividends of Regulated Investment Companies	(\$400)	\$0	\$0	\$0
Exception under Subpart F for Active Financing Income				
Corporate Franchise Tax	(\$1,700)	\$0	\$0	\$0
Increase from 50% to 100% the Exclusion of Gain on Certain Small Business Stock (acquired 1/1/13–12/31/13)*	\$0	\$0	\$0	\$0
Reduction in Recognition Period for S Corporation Built-In Gains Tax				
Corporate Franchise Tax	(\$700)	\$0	\$0	\$0
Business and Investment Provisions				
Individual Income Tax	(\$1,750)	(\$345)	(\$210)	(\$145)
Corporate Franchise Tax	(\$4,055)	(\$545)	(\$425)	(\$380)
Subtotal	(\$5,805)	(\$890)	(\$635)	(\$525)

* Revenue loss occurs after FY 2017.

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All Provisions				
Individual Income Tax	(\$153,270)	(\$172,225)	(\$138,780)	(\$145,205)
Corporate Franchise Tax	<u>(\$4,055)</u>	<u>(\$545)</u>	<u>(\$425)</u>	<u>(\$380)</u>
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